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# Economic Intelligence Weekly

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ECONOMIC INTELLIGENCE WEEKLY

Rumors of Arab Dollar Conversions

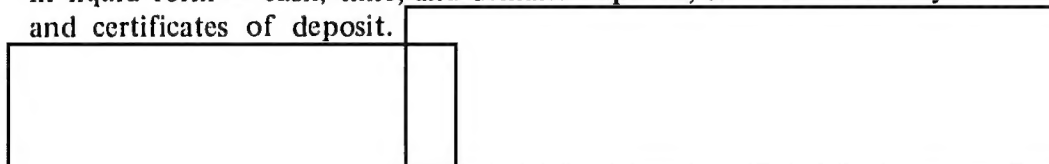
Rumors are circulating in Europe that the Arab oil states are switching out of dollars to minimize the effect of any asset freeze imposed in retaliation to an Arab oil embargo. No evidence is available, however, of any substantial dollar sales so far. The dollar has weakened only slightly on international money markets.



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The Arab oil states have enough liquid foreign reserves to disrupt currency markets. They have customarily maintained most of their reserves in liquid form – cash, time, and demand deposits, and short-maturity bills and certificates of deposit.

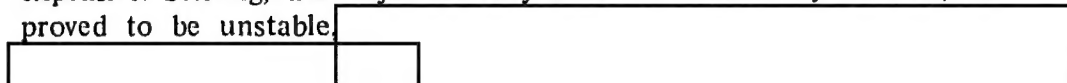
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It is questionable whether the Arabs would want to dump large dollar holdings. The exchange controls surrounding the strongest European currencies – including the Swiss franc – minimize earnings on foreign-owned deposits and thus make transfers into these currencies expensive. Sterling, the major currency least encumbered by controls, has proved to be unstable.

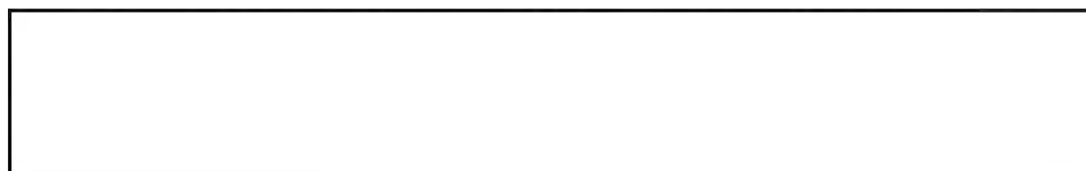
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The Arab states probably are not particularly worried about a US freeze on their holdings. Only about half of their foreign exchange reserves are held in dollars, and only a very small proportion of these dollars are deposited in the United States. Most of the dollars are held in Western

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